

Market Release | 8 June 2023

Auckland Airport FY23-27 price changes: Aero charges to fund investment in resilience, customer experience and pave the way for the new domestic facility

- Airline charges reset for FY23 to FY27 (period of Price Setting Event Four)
- Increase in charges to support major investment in long-life infrastructure, including transport, airfield, stormwater upgrades and a new baggage system
- Resilience and improving the customer experience at New Zealand's main aviation gateway the priority

Today Auckland Airport reset its aeronautical charges for Price Setting Event Four (PSE4), the five-year period spanning the 2023 to 2027 financial years.

The new charges will take effect from 1 July 2023, ending the year-long price freeze that Auckland Airport adopted to help airlines rebuild following the pandemic.

With the post-pandemic recovery now well underway, Auckland Airport Chief Executive Carrie Hurihanganui said Auckland Airport has set its new charges following consultation with major airlines – something that happens once every five years in accordance with the Airport Authorities Act.

The new charges will fund part of the much-needed investment in infrastructure that is underway at Auckland Airport. For PSE4, this amounts to \$2.5 billion of commissioned infrastructure, focusing on important airfield, terminal, baggage and transport improvements to be completed and in use by airlines by the end of the five-year period.

Ms Hurihanganui said the increase in PSE4 airline charges also reflected the higher cost of capital in the current economic environment compared to the previous price setting event.

“Travel is back, and the recovery is taking place more quickly than anyone expected. Now is the time for investment in Auckland Airport if we are to deliver the resilience and customer experience travellers want and the gateway New Zealand needs for the future,” Ms Hurihanganui said.

“Our domestic terminal is 57 years old and needs replacing. We know travellers are fed up with the domestic travel experience – they’ve told us that clearly. Other key aeronautical infrastructure also needs replacing. The pandemic meant we had to put much of this investment on hold and we are now in catch-up mode.

“We don’t think any travellers would say we are making the move to upgrade the airport too soon,” she said.

Auckland Airport’s pricing announcement today is the result of 24 months of extensive consultation with major airlines regarding aeronautical investment in Auckland Airport over PSE4 to support their business operations, as well as consultation over the airport’s wider ten-year development roadmap.

Key projects to be delivered over PSE4 include critical infrastructure that will pave the way for construction of a new domestic facility to be integrated into the existing international terminal and replace the ageing domestic terminal. This includes:

- \$1.5 billion in enabling works for the new integrated domestic facility, including the largest expansion of Auckland Airport’s airfield in history at 250,000m² or 23 rugby fields; providing new remote stands for jet aircraft; new fuel infrastructure; and stormwater capacity enhancements.
- New baggage system to transform luggage handling at Auckland Airport.
- A new experience for arriving and departing international travellers, with a new public drop off and pick up area on the doorstep of the international terminal as part of the Transport Hub development. Other roading and terminal forecourt upgrades are taking place to support terminal integration.
- Expansion of the international check in area to accommodate more travellers for when the new integrated terminal opens.
- Upgrades to improve the customer experience in the existing domestic terminal while the new integrated domestic terminal is being built.

Airlines only begin to pay for new infrastructure once it is complete and in use.

While Auckland Airport is building a new \$2.2b domestic facility integrated into the international terminal, the facility itself won't be complete and open to passengers until 2028 or 2029 (beyond PSE4), meaning those costs will be reflected in the next pricing period (PSE5).

Ms Hurihanganui said the ongoing recovery in aviation is strong, as is the need to invest in critical aviation infrastructure for the future.

“There are now 22 airlines flying to 37 destinations to and from Auckland Airport, up from 12 airlines and 21 destinations during the toughest days of the pandemic. In May, international seat capacity recovered to 91% compared to pre-pandemic and domestic recovered to 89%. The return of airlines is also working to support the recovery of trade with 80% of airfreight coming into Auckland in the belly hold of passenger aircraft.”

Ms Hurihanganui said Auckland Airport's new aeronautical charges would be rising from a very low base, accounting for a small portion of an airline ticket.

“Auckland Airport has long been one of the cheapest major airports for airlines to operate from in the region.

“At \$7 our current domestic jet aeronautical charges are 40-50% lower than comparable airports in our region and have risen just 65 cents in real terms over the last decade, reflecting the ageing domestic terminal. Meanwhile, international charges have fallen 10% in real terms over the past decade. Our charges currently represent about 3% to 3.5% of the cost of an average domestic or international fare.”

From July, the following changes will be introduced to Auckland Airport's aeronautical charges to airlines, which are calculated on a per passenger basis:

Domestic jet travel (Auckland to/from main centres):

- Airline domestic jet charges will average \$11.85 over the five-year PSE4 period. Charges will initially rise \$3.50 from \$6.75 to \$10.25 – lower than current charges at Wellington Airport (\$15.20), and at Christchurch Airport (\$14.60).
- Prices will then reach \$15.45 by FY27, the final year of PSE4.

Regional airline charges:

- Airline regional charges will average \$8.15 over the five-year PSE4 period.

Regional charges will initially increase by \$2.70 in July from \$4.40 to \$7.10 – this is \$3 to \$4 cheaper than comparable current charges at Wellington Airport (\$11.20) and Christchurch Airport (\$10).

- Regional charges will reach \$10.70 by FY27, the final year of PSE4.

International charges:

- Airline international charges will average \$37.25 over the five-year PSE4 period. International charges will initially increase by \$9.40 from \$23.40 to \$32.80 - this is lower than current published equivalent charges at other major international airports in the region including Sydney (\$42.20), Melbourne (\$35.90) and Brisbane (\$56.70).
- International charges will reach \$46.10 by FY27, the final year of PSE4.

“These changes have not been introduced lightly, particularly in the current economic environment. We are very mindful of cost to our airline partners and ultimately travellers. That’s why we have been working hard to deliver a pragmatic and affordable solution while responding to airline requests for changes as much as possible.

“At the same time, we’ve considered what we need to invest to ensure Auckland Airport’s infrastructure is at an appropriate standard, capable of delivering a good customer experience for expected passenger numbers and is resilient for the future. That’s our role. Doing nothing is not an option.

“Our new airline charges for PSE4 are in line with other comparative airports in the region. They will also be reviewed by the Commerce Commission.”

Auckland Airport’s prices across the 2023–2027 financial years target an after-tax return on investment of 8.73%, equal to the mid-point weighted average cost of capital (WACC) calculated by applying the Commerce Commission’s most recent (2016) WACC Input Methodology, but using updated data as at 1 July 2022, the start of PSE4 and not applying any downward adjustments. This is consistent with Auckland Airport’s submissions to the Commerce Commission’s WACC Input Methodology review and is supported by independent expert analysis.

Over PSE4, Auckland Airport will invest up to \$5 billion in aeronautical infrastructure, including work to progress the new domestic facility. However, pricing for PSE4 reflects just the \$2.5 billion of investment that will be completed and in use by airlines and passengers by the end of that period.

Ms Hurihanganui said Auckland Airport will continue to raise debt funding from a mix of both domestic and offshore markets to fund the capital expenditure programme. Because of the large forecast debt-funded 'works under construction' balance towards the second half of PSE4, she said new equity may be raised in future.

"This remains subject to a range of future uncertainties including the ongoing recovery in aviation, the future financial performance of Auckland Airport, and the execution run rate for the 10-year capital roadmap."

Auckland Airport is continuing to consult with airlines on potential future regional terminal infrastructure, the solution for which is currently expected to be in use during PSE5. The second runway does not feature during PSE4 and the project remains on hold.

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NOTES FOR EDITOR:

Consultation process

- Auckland, Wellington and Christchurch Airports are subject to information disclosure regulation by the Commerce Commission, providing transparency about airport pricing, spending decisions and performance.
- Auckland Airport re-sets its aeronautical prices every five years, a process that includes consultation with major airline customers and the Board of Airline Representatives New Zealand.
- Prices are set with reference to the Commerce Commission's current information disclosure framework (2016) with target return parameters updated as at the start of each pricing period.
- After Auckland Airport sets its aeronautical prices, the Commerce Commission reviews the pricing decision and publicly releases a report setting out its findings.
- Auckland Airport has now re-set its aeronautical prices payable by airlines for the remaining four years of the five-year PSE4 pricing period of July 2022 - June 2027. (Auckland Airport was due to re-set charges from 1 July 2022 but chose to freeze existing charges for the first year of the pricing period to support airlines' recovery from the pandemic.)

10-year capital roadmap

- Under Commerce Commission rules, Auckland Airport is required to share a ten-year capital roadmap at each price setting event. However, this remains subject to change throughout its ten-year life cycle, with the ability to defer or accelerate infrastructure projects depending on air traffic demand following consultation with airlines. Priced

aeronautical capital investment commissioning over the ten-year capital roadmap is currently estimated at about \$5.6 billion.

- A key element of the airport's ten-year capital roadmap is delivering a new domestic facility (\$2.2b of which \$2b will be recovered through aeronautical charges) as part of an expansion of the existing international terminal and to replace the ageing domestic terminal, along with other key terminal integration projects associated with the development (\$1.7b of which \$1.5b will be recovered through aeronautical charges). These costs include forecast construction cost escalation and holding costs. This project is underway and due for completion in 2028 or 2029.
- Along with the terminal integration programme, other key projects included in the ten-year capital roadmap are reflected in the below table. As noted above, this roadmap contains a list of all possible projects. Some may be replaced, deferred or cancelled following consultation and actual project commissioning costs will change versus the estimates presented below:

Forecast Commissioning profile of Priced Regulated Assets PSE4-5

\$m	PSE4	PSE5	PSE4 + PSE5
For the year to 30 June			
Terminal Integration Programme ¹	1,468	2,047	3,516
Airfield Renewals	302	299	601
Other Renewals	352	134	486
Regional Solution	0	300	300
DTB Upgrades	146	0	146
Aeronautical Programme	76	70	146
Contingent Runway	0	140	140
Transport Hub ²	77	50	127
Roading Network ²	58	41	99
Utilities ²	49	25	74
Total	2,528	3,107³	5,634

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Analyst and media webcast for Price Setting Event Four (PSE4)

¹ In March 2023 Auckland Airport announced a ~\$3.9b Terminal Integration programme to deliver a new domestic terminal to be fully integrated into the international terminal. This announcement reflected the total forecast cost of the programme over 2023 to 2030 including both regulated and unregulated elements. The ~\$3.5b presented here represents the share of the Terminal Integration programme which is forecast to commission over PSE4-5 and to be recovered through aeronautical charges

² Portion of costs recovered through aeronautical prices

³ This is the "Base" PSE5 capex scenario. The capex roadmap consulted on with airlines also included a high capex scenario for PSE5. But the Base scenario presented above provides the deliverability risk-adjusted view of 10-year commissioned priced aeronautical capital expenditure.

A webcast for analysts and media with our Chief Executive Carrie Hurihanganui and Chief Financial Officer Phil Neutze will be held at 2.00pm NZDT today.

Analysts and media can dial in to the conference call by:

1. Registering in advance of the conference using the link provided below. Upon registering, you will be provided with participant dial-in numbers and a unique registrant ID.
2. In the 10 minutes prior to the call start time, you will need to use the conference access information provided in the email received at the point of registering.

Conference call registration link for phone participants:

<https://register.vevent.com/register/BI899b1db5b712488abf957c86a47b635c>

Webcast link:

<https://edge.media-server.com/mmc/p/qoiqqouv>

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